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Start



Iowa
RETIREMENT INVESTORS' CLUB (RIC)
Looking forward to retirement!

Distributions *your way*



Iowa Department of Administrative Services
Human Resources Enterprise

Looking *forward* to retirement

Once you leave employment, RIC account assets are yours!

Retirement income planning can seem overwhelming but RIC is the easy part.

RIC provides great benefits not only while you save but also throughout your retirement.



Today's agenda

- Program review
- Pre-retirement
- In retirement
- Taxes



Program review

The Iowa **Retirement Investors' Club (RIC)** is a retirement savings plan administered for the exclusive benefit of you and your beneficiaries.

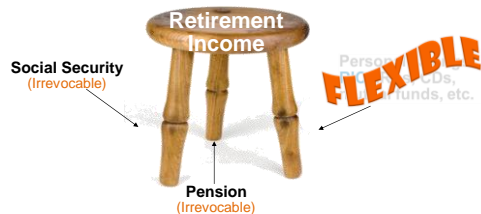


Participants enjoy:

- An additional source of retirement income
- Tax advantages
- Diversified low-cost investment options with no surrender penalties or restrictions

Program review

Personal savings income options provide flexibility.



Program review (contributions)



As a participant in the RIC 457/401a program, you choose to have a portion of your **wages automatically deducted from your paycheck** to save for future income needs.

Deductions are deposited into your selection of RIC investments in a 457 retirement savings account.

Program review (contributions)



The total of all contributions (pretax and/or post-tax) made to the 457 account in a calendar year must not exceed the IRS annual maximum limits.

IRS Annual Maximum Contribution Limits		2013
Regular	100% of compensation up to:	\$17,500
Age 50+	The regular limit + \$5,500:	\$23,000
3-Year Catch-up	Up to twice the regular limit	\$35,000

Program review (contributions)



3-Year Catch-Up qualifications:

- You have not contributed the IRS maximum every year since 1979
- You are within 4 years of normal retirement (IPERS - Rule of 88, Rule of 62/20 or age 65; POR- Age 55 & 22 years of service).

This is a 3 consecutive year benefit.

IRS Annual Maximum Contribution Limits		2013
Regular	100% of compensation up to:	\$17,500
Age 50+	The regular limit + \$5,500:	\$23,000
3-Year Catch-up	Up to twice the regular limit	\$35,000

457 contributions do not reduce Social Security & IPERS benefits.

Program review (tax benefits)



Tax benefits differ depending on the taxation of deductions.

You have the choice to have your payroll deductions taken on a **pretax and/or post-tax** Roth basis.

[Roth Summary](#)

Program review (tax benefits)



Pretax 457 contributions are deducted *before* state/federal tax withholding. You receive the immediate tax benefit of lower taxable income for the year.

Pretax contributions grow *tax-deferred* until you take payment. (Your tax rate may be lower in retirement.)

Example

Annual wages:	\$38,000
RIC <i>pretax</i> contributions:	\$3,000
Taxable income of:	\$35,000

Program review (tax benefits)



Post-tax Roth 457 contributions are deducted *after* state and federal income tax withholding. There is no immediate tax benefit.

Roth contributions grow tax-deferred for *qualified tax-free distributions*. (Your tax rate may be higher in retirement.)

Example

Annual wages:	\$38,000
RIC <i>post-tax</i> contributions:	\$3,000
Taxable income of:	\$38,000



Roth 457 qualified distributions require a distributable event, an established account for 5+ years, and condition of age 59 ½, or disability.

Program review (Roth)



Roth 457 vs. Roth IRA

How does the Roth 457 differ from a Roth IRA?

The Roth 457

- Funded by payroll deductions
- No income limit requirements
- Higher contribution limits
- Requires IRS RMD begin at age 70 ½ for terminated employees

[Roth Summary](#)

Program review (employer match)



An employer match benefit of up to **\$75/month** is deposited to your selection of investments in the 401a on a pretax basis only.

The match applies to your pretax and/or post-tax 457 contributions.

Match contributions do not affect 457 contribution limits.

Program review (roll-ins)

Outside retirement plan assets may be rolled into RIC at anytime. Assets rolled into RIC may be rolled out without restrictions.

457 assets from previous government employer plans may be rolled into your RIC 457.

No vesting requirements

IRA, 401k, 403b, etc. assets may be rolled into your RIC 401a.

Consider RIC benefits of penalty-free competitive fixed rate accounts, no-load/low-cost mutual funds, expert advisors, etc.



Roth IRAs are not eligible for roll-in to RIC.

Program review (investments)

Selection process

RIC conducts a public competitive bid on behalf of participants to determine which providers will offer investment products and services.

RIC providers must meet minimum standards:

- Well-diversified, competitive fund line-up
- Restriction-free and penalty-free investments
- Flexible distribution options
- 24/7 internet and phone account access
- Investment planning tools
- Low costs



Program review (investments)

Successful bidders are referred to as RIC core providers. Each RIC core provider offers 25+ diversified investments. Investment advisors are available to help explain the options at no additional cost!



All funds must meet investment policy standards and undergo annual reviews.

[Providers & Investments, At-A-Glance](#)

Program review (investments)

Investment types

Each provider offers fixed rate and variable rate funds.



Fixed rate accounts invest in a variety of debt investments that earn an average rate (say 5.50%). Provider expenses are paid and you receive a portion of that rate (say 3%) for a fixed period of time. Your principal does not fluctuate. Rates are guaranteed by the provider. There are no fees.



Variable rate "mutual" funds are professionally managed pools of investments. Values fluctuate with the performance of the underlying investments. Principal and earnings are not guaranteed. Fund management fees apply.

Program review (investments)

Investment categories

Each provider offers investments in all of these categories.

Bond (Income)

Fixed Rate (safety)
Money Market (safety)
Intermediate Term-High
Quality Core Bond
High Yield Bond
TIPS (Treasury Inflation-
Protected Securities)
Global Bond

Stock/Bond (Balanced)

Traditional Balanced
Lifecycle (target date)

Stock (Growth)

Large Capital Stock Index
Large Capital Value Stock
Large Capital Growth Stock
Mid-Capital Stock Index
Mid-Capital Value Stock
Mid-Capital Growth Stock
Small Capital Stock Index
Small Capital Value Stock
Small Capital Growth Stock
Total US Stock Mkt Index

International

International Developed Mkts
International Emerging Mkts
World

Alternative

Real Estate
Socially Responsible
Self-Directed Brokerage
Accounts (SDBA)

Program review (investments)

Fund managers

Variable rate investments (mutual funds) are professionally managed by top-performing investment managers such as:

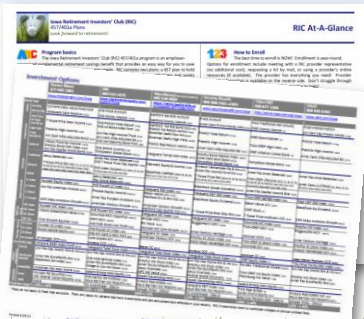


Total variable rate fund fees in the Iowa RIC plans range from .06% - 1.83%. RIC fixed rate accounts have no fees.

① [Providers & Investments](#), [RIC At-A-Glance](#)

Program review (investments)

Access to provider websites, quarterly fund performance, advisor listings, fixed rates, etc. are easily accessed from the [RIC website](#).



Today's agenda

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Pre-retirement

Before you retire, consider...

Additional contributions



Investment mix



RIC plan benefits



Pre-retirement (savings amount)

Should I save more?



Retirees, age 65, will spend an average of 20 years in retirement. Think of it as the longest vacation of your life.



Employees age 50+ often have more money to save but don't take action to secure their future until it's too late.

Utilize the provider tools and advisor services to determine how prepared you are. The IPERS calculators [are](#) great tools too. Take action now!

Pre-retirement (savings amount)

Additional deferral option

You may defer additional pay from your final paycheck*:

- Unused sick pay (up to \$2000)
- Unused vacation pay

Pretax deferral allows you to pay taxes in retirement (possibly in a year you don't have earnings or over a few years to spread your tax liability).

Post-tax Roth deferral allows for tax-free earnings over the long-term.

Consult your tax advisor to determine what is right for you.

*IRS annual contribution limits apply

Pre-retirement (savings amount)

Deferral changes for final paychecks must be submitted on the [RIC Account Form](#) by your last day of employment.

All 457 assets are liquid to you at separation from employment.

The image shows a screenshot of the 'RIC Account Form'. It is a complex form with multiple sections for personal information, employment details, and deferral election options. The form includes checkboxes for various deferral types and amounts, and a section for signature and date.

Pre-retirement (savings amount)

You may calculate net *final* pay by entering your payout amount in "pay not subject to retirement".

GROSS-TO-NET CALCULATOR			
KEY INFORMATION		CONTROLS INFORMATION	
LAST NAME	PP IN MONTH: 1	FILING STATUS: M	
FIRST NAME	DEDUCTION INFORMATION		
SOCIAL SECURITY	FEDERAL WH: 0.00		100.50
EMPLOYER NUMBER	STATE WH: 01.000		63.47
	GRS01: 0.00		64.94
	MEDICARE: 0.00		22.42
	RETIREMENT EXEMPT N PLAN 1		84.44
	HEALTH INSC: PLAN 11000		0.00
	DENTAL INSC: PLAN 11000		23.50
	LIFE INSC: PLAN 12		0.00
	UNION: 0.00		349.92
	CRAV: 0.00		0.00
	DEF COMP: 0.00		50.00
	RIC: 0.00		50.00
	EMP: 0.00		0.00
	FSR/HEALTH: 0.00		0.00
	FSR/DEPC: 0.00		0.00
	OTHER DEDUCT: 0.00		0.00
	NET PAY: 751.33		

Pre-retirement (investment mix)

Am I invested properly?



Your goals for investment growth and income and feelings about risk can change over time-maybe your portfolio should too.



Growth portfolio



Income portfolio



Pre-retirement (investment mix)

Should I change investments?



"I want portfolio help from a local advisor at no additional cost."



Pre-retirement (investment mix)

Should I change investments?



"I want portfolio help from a local advisor at no additional cost."



"I want aggressive no-load funds for future growth with automatic rebalancing."



Pre-retirement (investment mix)

Should I change investments?



"I want portfolio help from a local advisor at no additional cost."



"I want aggressive no-load funds for future growth with automatic rebalancing."



"I want my son-in-law to manage my money to secure my income needs."



Pre-retirement (investment mix)

Should I change investments?



"I want portfolio help from a local advisor at no additional cost."



"I want aggressive no-load funds for future growth with automatic rebalancing."



"I want my son-in-law to manage my money to secure my income needs."



"I want guaranteed rates, no market risk, no fees, and no restrictions."



Pre-retirement (investment mix)

Should I change investments?



"I want portfolio help from a local advisor at no additional cost."



"I want aggressive no-load funds for future growth with automatic rebalancing."



"I want my son-in-law to manage my money to secure my income needs."



"I want guaranteed rates, no market risk, no fees, and no restrictions."



"I don't need an advisor; I pick my own individual stocks and bonds online."



Pre-retirement (investment mix)

Should I change investments?



Pre-retirement (investment mix)

Everyone is different!



RIC is designed to meet the needs of all investor styles and goals.

Your investment mix and potential for earnings (or income) largely depends on your tolerance for risk, investment/income goals, and timeframe for investment. Make use of the provider planning tools or meet with an RIC advisor for help.

Pre-retirement (investment mix)

Be aware of the risks associated with all investments (including IRAs). Ask your provider to explain them.

Mid-small co stock funds,
international and sector funds

Lg co stock, growth & income funds

Corp bond, income, balanced funds

US gov't bond and money market
funds, fixed rate accounts

US treasury bonds, CD's or money markets at an FDIC insured bank, savings bonds, savings, checking are not available in RIC

Pre-retirement (investment mix)

Now is a good time to review your investment mix. Be sure your RIC investment portfolio complements your other investments.

Money market at bank
Credit Union savings account
CD at bank
Savings bonds/safety deposit box
Annuity with insurance company
RIC account
IRAs
Spouse's 401(k)
Stocks in a brokerage account
Mutual funds at investment firm



Pre-retirement (plan benefits)

What are my RIC benefits?



- Remember that RIC shops the competition for the newest and best investments offered in retirement plans.
- Investments are reviewed annually by an outside investment consultant.
- Investment are no-load, low cost (no cost for fixed rate accounts), and have no restrictions or penalties for distributions.
- 457 account assets have no age penalty.

Pre-retirement (distributions)

In-service distribution options:

- Unforeseeable Emergency
 - Must meet strict federal guidelines
 - Funds available from your 457 account only
- Eligible cash out provision
 - Total 457 balance must be \$5,000 or less
 - No contributions in the previous 24 months
- Age 70½
- Service credit purchase (pretax 457 assets only)



[Distributions while employed](#)

Pre-retirement (distributions)

Service Credit Purchase

- If you have verified with IPERS that you are able to purchase service credits, you may use **pretax 457 assets** (as well as IRA, 401(k), 403b) for the purchase.
- This is called a plan-to-plan transfer and is nontaxable.
- Contact IPERS to verify eligibility and cost.



Roth 457 assets are not available for service credit purchases.

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In retirement

At separation from employment

Your RIC accounts are designed to provide flexible benefits throughout your retirement years.

At anytime, you may contact your provider to make changes to:

- Investment selections (online access)
- Personal information
- Beneficiaries
- Providers (eligible exchanges)
- Distributions (most options)



In retirement

At separation from employment

You do not have to take your money out until you want it or turn age 70 ½, whichever is first. You choose how much and when you want to take your money.



In retirement

Make a list of what's important?

- Supplement to SS and pension income
- Projected date of income need
- Health insurance needs
- Investment goals (safety, income, growth)
- Death benefits (beneficiaries, spouse's income)
- Lifestyle in retirement (hobbies, travel, purchases, clubs, etc.)
- Need for liquid cash (emergencies, extra income)



In retirement

What do you want/need?



"I want to defer taxes and only take minimum distributions at 70 ½."

In retirement

What do you want/need?



"I want to defer taxes and only take minimum distributions at 70 ½."

"I want to take partial lump sums as I need them."

In retirement

What do you want/need?



"I want to defer taxes and only take minimum distributions at 70 ½."

"I want to take partial lump sums as I need them."

"I want guaranteed income for the rest of my life."

In retirement

What do you want/need?



"I want to defer taxes and only take minimum distributions at 70 ½."

"I want to take partial lump sums as I need them."

"I want guaranteed income for the rest of my life."

"I want to start my own business and supplement my income for the first couple of years."

In retirement

What do you want/need?



"I want to defer taxes and only take minimum distributions at 70 1/2."

"I want to take partial lump sums as I need them."

"I want guaranteed income for the rest of my life."

"I want to start my own business and supplement my income for the first couple of years."

"I want guaranteed interest and liquidity."

In retirement

What do you want/need?



"I want to defer taxes and only take minimum distributions at 70 1/2."

"I want to take partial lump sums as I need them."

"I want guaranteed income for the rest of my life."

"I want to start my own business and supplement my income for the first couple of years."

"I want guaranteed interest and liquidity."

"I want systematic payments that I can change any time I want."

In retirement

Everyone is different!



RIC is designed to meet the income and investment needs of all retirees.

In retirement

You have choices!

- Stay invested in RIC
- Take taxable distributions
- Roll out of RIC
- Purchase pension credits



In retirement

Stay invested in RIC

- Pretax assets stay tax-deferred; post-tax assets grow tax-free.
- Investments remain liquid with no restrictions or contract fees.
- Changes to investments/providers may be made at any time.
- Account information is available 24/7.
- Eligible roll-ins are accepted at anytime.
- No future contributions allowed.



In retirement (stay invested)

IRS Required Minimum Distributions (RMD)

- You may leave your assets invested until age 70 ½ or retirement, whichever is later.
- At 70 ½, the IRS requires you to begin taking annual minimum distributions.
- Unused assets remain invested unless balance is annuitized.
- The first RMD must begin no later than the April following the year you turn age 70½.
- **If you fail to take distribution on time, you are subject to a 50% penalty on the required distribution amount.**



In retirement (stay invested)

Provider exchanges

You may change your RIC provider selection without penalty or restrictions.



If a new provider becomes available, you may take advantage of the new offerings.

[Providers](#)



In retirement

You have choices!

- Stay invested in RIC
- Take taxable distributions
- Roll out of RIC
- Purchase pension credits



In retirement (taxable distributions)

After you separate from employment, you may take cash at any time with no restrictions or fees. Payment options include:

- Lump sum(s)
- Flexible periodic payments
- Lifetime payments (annuity)
- Any combination



Distribution requests are made directly to your provider. State authorization is not required.

[Distributions](#)



In retirement (taxable distributions)

Lump sum(s)

You may choose to take all or part of your money. Be aware of the tax consequences.



Example

RICA account = \$ 50,000

(Mandatory tax of 20% federal & 5% state)

- 6% state withholding
- 28% federal withholding
- what you receive

In retirement (taxable distributions)

Flexible periodic payments (not based on life expectancy)

- You choose the payment frequency and amount.
- Changes (increase, decrease, stop or start) may be made as your income needs change.
- You continue to have access to remaining balance for distributions and investment selection.

Periodic payment options include:

- Fixed dollar amount
- Percentage of assets
- Even distribution of balance over a number of years

FLEXIBLE

In retirement (taxable distributions)

Lifetime payments

Payments are an even distribution of your account balance **based on life expectancy** (single or joint life).

Once you begin receiving lifetime payments,

- Payments are irrevocable
- No access to unused balance
- No ability to select investments
- No transfer of assets to beneficiaries

In retirement (taxable distributions)

Lifetime income - Single life

Payments continue for your lifetime even if you exhaust your account value. May be suitable for those who have longevity in their family, limited income sources, and/or no beneficiaries.

Example

RIC account value: \$100,000

Life expectancy: 18 years (The insurance company predicts life expectancy to be age 83)

Income Benefit: **\$9,006.00/yr**



In retirement (taxable distributions)

Lifetime income - Single life

What if you live to be
age 95?

Lifetime benefit
\$270,180.00
(\$9006 x 30 years)

You lived longer than
predicted – the
system worked in
your favor.

What if you live to be
age 70?

Lifetime benefit
\$45,030.00
(\$9006 x 5 years)

Your balance of more
than \$55,000 will go
to the insurance
company.



In retirement (taxable distributions)

Lifetime income - Joint life

Provides income for your lifetime and the lifetime of your designated survivor. This option may be best suited for those who have longevity in their (or their survivor's) family and/or limited income sources.

If your survivor dies before you, you will continue to receive the joint rate of \$7,600 per year. Upon your death, the unused portion of your account will go to the insurance company.

Income Benefit: **\$7,600.00/yr**



In retirement

You have choices!

- Stay invested in RIC
- Take taxable distributions
- Roll out of RIC
- Purchase pension credits



In retirement

Rollovers to outside retirement plans

You may roll your 457/401a assets to an eligible plan outside of RIC. Pretax assets stay tax-deferred.

Be aware that 457 assets have no age penalty. If rolled to IRA or other eligible plan, an IRS early withdrawal penalty may apply to distributions prior to age 59 ½.



RIC investments are low-cost and restriction-free. Retail products may be more costly or restrictive.



5-year Roth account status does not transfer to Roth IRA



In retirement (rollover)

"Should I move to an IRA?" Each investor is different. IRAs involve similar investment risks and may be more costly or restrictive than your RIC accounts. Be sure the IRA benefits are as good as the RIC plan benefits you already enjoy.

Be ready to compare.

You may hear...	What you know...
"Investment selection is limited in your employer plan."	RIC has guaranteed fixed rate options (no fees) plus over 125 mutual funds managed by top-performing investment managers at low cost.
"IRAs are safe."	IRA investments have the same risks as all investments and should not be thought of as safer investments in general.

They're looking for you



In retirement (rollover)

Be ready to compare.

You may hear...

"You're paying too much in RIC."

"IRAs have more payment options."

"I can't help you if you stay in RIC."

"I don't get paid if you stay in RIC."

What you know...

RIC has no annual contract, M&E, or surrender fees, and no to low administrative fees. Many RIC fund shares are lower cost than retail shares due to economies of scale.

RIC accounts have no restrictions, surrender penalties, maturities, etc. Your money is always liquid. Payment options are numerous. No withdrawal penalty prior to age 59 ½ for 457.

They can tell you if the investments you hold in RIC complement what they manage. In many cases they can represent an RIC provider.

Low RIC fees are part of the plan design and may not pay the advisor as much as retail investments in IRAs.



In retirement

You have choices!

- Stay invested in RIC
- Take taxable distributions
- Roll out of RIC
- Purchase pension credits



In retirement

Service Credit Purchase

- You not only have the option to purchase pension credits while you are working; you may also purchase credits after retirement with **both 457 and 401a match account assets**.
- This is called a plan-to-plan transfer and is nontaxable.
- If you wish to purchase IPERS credits, call them at 800-622-3849 to determine eligibility and cost.



Roth 457 assets are not available for service credit purchases.

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Taxes



Taxable distributions are taxed as ordinary income and reported on IRS 1099R.

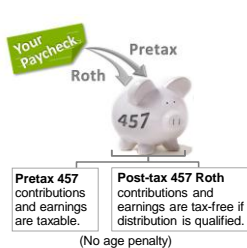
An automatic 20% federal and 5% state income tax is withheld unless:

- You are age 70 ½+
- You choose a lifetime annuity
- You choose a series of payments for 10+ years
- You live outside of Iowa (state tax exception only)

Taxes



Tax treatment of distributions differs depending on the taxation of contributions.



- Qualified distribution:**
- A distributable event has occurred (leave employment, turn age 70½, qualify for cash out);
 - Roth account has been open for 5+ years; **and**
 - You are age 59 ½+ or disabled
- Non-qualified Roth distributions are subject to taxation on the earnings portion of the distributed amount.

Taxes

Tax treatment of distributions differs depending on the taxation of contributions.



Pretax 457 contributions and earnings are taxable.

Post-tax 457 Roth contributions and earnings are tax-free if distribution is qualified.

(No age penalty)

Pretax 401a contributions and rollover assets are taxable. IRS 10% penalty may apply prior to age 59 ½.

That covers it!
It's not too late to enroll!



Enrollment is easy

Call a RIC provider



The provider supplies everything you need to open your accounts, choose investments, begin payroll deductions, and start getting the match! Ask the provider to help you through the process.

 [Providers](#)

Resources

- Call your provider if you have any questions about reviewing your statements.
- Access your account online.
- Review the RIC website.
(<http://ric.iowa.gov>)
- Contact us if you need help.
Robbie Stoecker
515-242-6846
robbie.stoecker@iowa.gov